

## AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Calhoun County Road Commission	County Calhoun
Audit Date December 31, 2004	Opinion Date April 1, 2005	Date Accountant Report Submitted to State: June 28, 2005	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

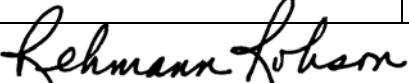
1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- |   |   |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).  |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).  |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).  |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) REHMANN ROBSON GERALD J. DESLOOVER, CPA			
Street Address 5800 GRATIOT, PO BOX 2025	City SAGINAW	State MI	Zip 48605
Accountant Signature 			

**CALHOUN COUNTY ROAD  
COMMISSION**

**(a Component Unit of Calhoun County)**

**Marshall, Michigan**

**FINANCIAL STATEMENTS**

**For The Year Ended December 31, 2004**



**REHMANN ROBSON**

*Certified Public Accountants*

**CALHOUN COUNTY ROAD COMMISSION**  
**(a Component Unit of Calhoun County)**

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# REHMANN ROBSON

*Certified Public Accountants*

A member of THE REHMANN GROUP



## INDEPENDENT AUDITORS' REPORT

April 1, 2005

Members of the Board of County  
Road Commissioners  
County of Calhoun, Michigan  
Marshall, Michigan

We have audited the accompanying financial statements of the governmental activities, the major fund and the aggregate remaining fund information of the **CALHOUN COUNTY ROAD COMMISSION, a component unit of Calhoun County, Michigan**, as of and for the year ended December 31, 2004, which collectively comprise the Road Commission's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Calhoun County Road Commission's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund and the aggregate remaining fund information of the **Calhoun County Road Commission** as of December 31, 2004, and the respective changes in financial position thereof and the budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 1, 2005, on our consideration of the **Calhoun County Road Commission's** internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3-10 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements which collectively comprise the Road Commission's basic financial statements. The schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of the **Calhoun County Road Commission**. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

## MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Calhoun County Road Commission, we offer the readers of the Road Commission's financial statements this narrative overview and analysis of the financial activities of the Road Commission for the fiscal year ended December 31, 2004.

### Financial Highlights

The Calhoun County Road Commission met the requirements of Governmental Accounting Standards Board (GASB) Statement No. 34 beginning with fiscal year end December 31, 2003.

Net assets may, over time, enable governmental agencies to determine their overall fiscal position. As shown on the Calhoun County Road Commission Net Asset chart below, the Road Commission's assets exceeded liabilities by \$41,539,504 at the end of the fiscal year.

When comparing the fiscal year to the previous year, net assets have increased by \$825,782. This was comprised of an increase of \$1,077,703 in infrastructure assets, and a decrease of \$251,921 in unrestricted net assets.

At the end of the current fiscal period, general fund unreserved fund balance was \$1,959,994 or 14% of total general fund expenditures.

The Road Commission's debt decreased by approximately \$568,000 during the current fiscal year; no new debt was issued.

### Overview of the Financial Statements

This discussion and analysis is intended to provide a basis of understanding the Road Commission's basic financial statements. These statements comprise three components: (1) government-wide financial statements (2) fund financial statements, and (3) notes to the financial statements. Supplementary information is also provided for additional informational purposes.

To simplify financial reporting and improve readability, the government-wide financial statements and the fund statements have been combined to report the statement of net assets and general fund balance sheet on a single page and the statement of activities and general fund revenues, expenditures and changes in fund balance on a single page. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements.** The *government-wide financial statements* are designed to provide readers with a broad overview of the Road Commission's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the Road Commission's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or

decreases in net assets may serve as a useful indicator of whether the financial position of the Road Commission is strengthening or weakening.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the Road Commission that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the Road Commission include public works projects on County roads. There were no business-type activities of the Road Commission in 2004.

### **Government-wide Statements**

The *statement of net assets* presents information on all of the Commission's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as an indicator of the Commission's overall fiscal position.

The *statement of activities* presents information showing how the Commission's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in past or future fiscal periods (for instance, depreciation expense associated with capital assets).

The Commission is principally supported by Michigan Transportation fund distributions and intergovernmental grants and charges for services. The governmental activities of the Commission include providing construction, repair, maintenance, and snow removal of roads within Calhoun County, as well as providing housing rehabilitation and other community development programs to Calhoun County residents.

The government-wide financial statements include only the Commission itself. The Commission has no legally separate component units for which the Commission is financial accountable. In this report, financial information for the Commission is reported separately from the financial information presented for Calhoun County, which reports the Commission as a component unit.

The government-wide financial statements can be found on pages 11 and 13 of this report.

**Fund financial statements.** A *fund* is grouping of related accounts used to maintain control over resources that have been segregated for specific activities or objectives. The Commission, like other units of state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The activity of the Commission is accounted for in four governmental funds – the General Fund, and Housing Rehabilitation, Community Development and Remonumentation Funds.



**Governmental funds.** *Governmental funds* (General Fund) are used to account for essentially the same function reported in the government-wide financial statements. However, unlike the government-wide financial statements, general fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of the general fund is narrower than that of the government-wide financial statement's it is useful to compare the information presented for the general fund with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the general fund balance sheet and the general fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between the general fund and the government-wide statements.

The Commission maintains four governmental funds. The general fund is the major fund for financial reporting purpose as defined by GASB Statement #34. The Housing Rehabilitation, Community Development and Remonumentation Funds are nonmajor funds.

The Commission adopts an annual appropriated budget for its funds. Budgetary comparison statements have been provided herein for the General Fund in order to demonstrate compliance with the budget.

The basic governmental fund financial statements can be found on pages 11 through 15 of this report.

The Commission does not maintain proprietary nor fiduciary funds.

### **Government-wide Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Road Commission, assets exceeded liabilities by \$41,539,504 at the close of the most recent fiscal year.

By far the largest portion of the Road Commission's net assets (95 percent) reflects its investment in capital assets (e.g., land, buildings, vehicles, equipment and infrastructure), less any related debt used to acquire those assets that is still outstanding. The Road Commission uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the Road Commission's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

<b>Condensed Statement of Net assets:</b>	<b>2004</b>	<b>2003</b>
Current and other assets	\$ 3,634,295	\$ 3,632,945
Capital assets	<u>46,224,698</u>	<u>42,081,535</u>
<b>Total assets</b>	<b><u>46,224,698</u></b>	<b><u>45,714,480</u></b>
Long-term liabilities outstanding	3,177,016	3,745,851
Other liabilities	<u>1,508,178</u>	<u>1,254,907</u>
<b>Total liabilities</b>	<b><u>4,685,194</u></b>	<b><u>5,000,758</u></b>
<b>Net assets:</b>		
Invested in capital assets	39,413,387	38,335,684
Unrestricted	<u>2,216,117</u>	<u>2,378,038</u>
<b>Total net assets</b>	<b><u>\$ 41,539,504</u></b>	<b><u>\$ 40,713,722</u></b>

At the end of the current fiscal year, the Road Commission is able to report positive balances in all categories of net assets. The same situation held true for the prior fiscal year.

The government's net assets increased by \$825,782 during the current fiscal year. The majority of this growth largely reflects the degree to which ongoing revenues exceeded ongoing expenses.

#### **Road Commission's Changes in Net Assets**

##### **Condensed Statement of Activities:**

<b>Revenue</b>	<b>2004</b>	<b>2003</b>
<b>Program revenue</b>		
Charges for services	\$ 3,068,849	\$ 2,718,304
Operating grants and contributions	10,160,858	9,163,048
Capital grants and contributions	<u>665,781</u>	<u>922,512</u>
<b>Total program revenue</b>	<b>13,895,488</b>	<b>12,803,864</b>
General revenue – Interest income	<u>3,162</u>	<u>5,874</u>
<b>Total revenue</b>	<b><u>13,898,650</u></b>	<b><u>12,809,738</u></b>
<b>Expenses</b>		
Public Works	13,067,087	11,871,163
Debt Service - Interest only	<u>143,731</u>	<u>163,318</u>
<b>Total expenses</b>	<b><u>13,210,818</u></b>	<b><u>12,034,481</u></b>
<b>Increase in Net Assets</b>	<b><u>\$ 687,832</u></b>	<b><u>\$ 775,257</u></b>

**Governmental activities.** Governmental activities increased the Road Commission's net assets by \$687,832 during fiscal year 2004.

—Key elements of this increase are because infrastructure maintenance expenses and capital outlay cost which are added to capital assets exceeded depreciation on capital assets by approximately \$532,000. Also, debt service payments reduced long-term liabilities by approximately \$569,000. However, federal grant revenues decreased over \$300,000 from 2003.

In addition, there was a restatement (increase) in the beginning net asset balance at January 1, 2004 due to the correction of an error in a prior year in the amount of \$137,950.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the commission's financial statements. The notes to the financial statements can be found on pages 16 through 27 of this report.

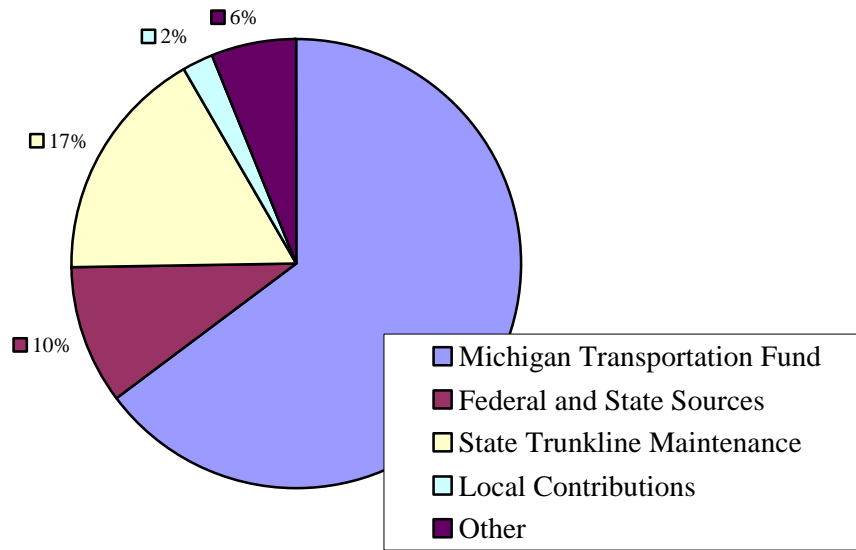
**Other information.** In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information*. This is limited to this management discussion and analysis.

### **Fund Level Financial Statements**

As of the end of the current fiscal year, the Commission's governmental funds reported combined ending fund balances of \$2,168,862, a decrease of \$398,872 in comparison with the prior year. Approximately 58% of this total amount (\$1.26 million) constitutes *unreserved fund balance*, which is available for spending at the government's discretion. The remainder of fund balance is *reserved* to indicate that it is not available for new spending because it has already been committed to inventory purchases, which is included as a fund asset. The unreserved fund balance to the general fund is approximately \$1,057,000, which represents 7.5% of total general fund expenditures. The general fund had a decrease of approximately \$427,000 due to a reduction in federal grant revenues of approximately \$300,000, and ongoing maintenance expenditures in excess of revenues.

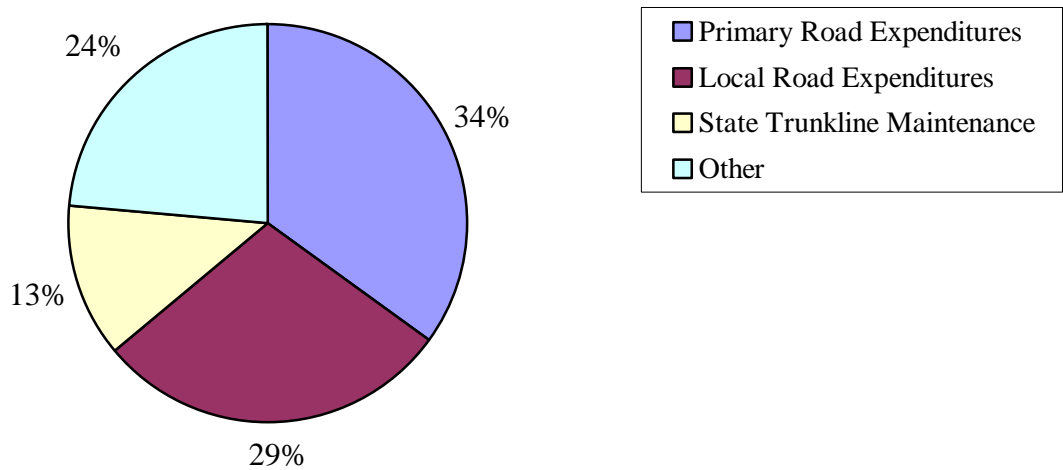
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**Revenues by Source - Governmental Activities**



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**Expenditures - General Fund**



## Capital Assets and Debt Administration

### Capital Assets

Major capital asset events during the current fiscal year included the following:

- Infrastructure assets reflect construction and improvements to the primary and local road system. Total additions for roads and bridges were approximately \$1,996,000 in 2004.

### Calhoun County Road Commission Capital Assets (net of depreciation)

	<u>2004</u>	<u>2003</u>
<b>Land and improvements – not depreciated</b>	<b><u>\$ 21,483,686</u></b>	<b><u>\$ 20,761,032</u></b>
Land improvements	75,305	75,305
Buildings	1,781,407	1,742,264
Road Equipment	9,008,767	8,996,133
Shop Equipment	246,657	228,816
Office Equipment	409,509	324,501
Engineering Equipment	76,115	82,403
Yard and Storage Equipment	822,653	815,179
Depletable assets	235,267	240,206
Infrastructure		
Roads and Signals	30,530,699	29,392,214
Bridges	<u>6,479,283</u>	<u>6,344,140</u>
<b>Sub-total – capital assets depreciated</b>	<b><u>49,665,662</u></b>	<b><u>48,241,161</u></b>
<b>Accumulated Depreciation</b>		
Buildings and improvements	1,503,104	1,450,401
Depleteable assets	136,554	141,493
Equipment	9,067,621	8,863,991
Infrastructure – Roads and Signals	15,786,982	14,607,628
Infrastructure – Bridges	<u>2,064,684</u>	<u>1,857,145</u>
<b>Total Accumulated Depreciation</b>	<b><u>28,558,945</u></b>	<b><u>26,920,658</u></b>
<b>Total capital assets being depreciated – net</b>	<b><u>21,106,717</u></b>	<b><u>21,320,503</u></b>
<b>Governmental activities capital assets – net</b>	<b><u>\$ 42,590,403</u></b>	<b><u>\$ 42,081,535</u></b>

<b>Long-term Debt</b>	<b><u>2004</u></b>	<b><u>2003</u></b>
Bonds Payable	\$ 2,275,000	\$ 2,615,000
Lease Purchase Agreements	625,473	856,058
Contracts Payable	<u>276,543</u>	<u>274,793</u>
<b>Total</b>	<b><u>\$ 3,177,016</u></b>	<b><u>\$ 3,745,851</u></b>

No new debt was issued in 2004. Total long-term debt decreased from 2003 by \$568,835.

Additional information on the Road commission's long-term debt can be found in Note 4 on page 22 of this report.

### **Economic Factors and Road Fund Budgetary Highlights**

The Road Commission amended its 2004 budget during the year to reflect the allocation between primary and local road projects after completion of the 2004 Master List of Projects.

During 2004, the Road Commission received approximately \$360,000 in additional revenue from Michigan Transportation Funds (MTF) due partially to a one-time increase in revenue of license registration fees. We anticipate receiving approximately \$350,000 less in MTF funds during fiscal year 2005, due to a change in the rate for urban mileage. Management has worked diligently to propose the 2005 Master List of Projects prior to submittal of the 2005 Budget. The Board of Road Commissioners has set capital improvement spending at \$300,000 for 2005.

### **Requests for Information**

This financial report is designed to provide a general overview of Commission's finances for all those with an interest in the component unit's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Managing Director, Calhoun County Road Commission at 13300 Fifteen Mile Road, Marshall, MI 49068.

## **BASIC FINANCIAL STATEMENTS**

**Calhoun County Road Commission**  
**Statement of Net Assets and Governmental Fund Balance Sheet**  
**December 31, 2004**

	<u>Major Fund</u> <u>General</u> <u>Operating</u>	<u>Nonmajor</u> <u>funds</u>	<u>Total</u> <u>Governmental</u> <u>Funds</u>	<u>Adjustments</u>	<u>Statement</u> <u>of Net Assets</u>
<b>Assets</b>					
Cash and interest bearing deposits	\$ 519,670	\$ 60,337	\$ 580,007	\$ -	\$ 580,007
Accounts receivable					
Michigan Department of Transportation	1,485,022	-	1,485,022	-	1,485,022
Due from other governmental units	107,848	60,670	168,518	483,539	652,057
Other	14,579	-	14,579	-	14,579
Due from other County funds and component units:					
Parks fund	76,590	-	76,590	(76,590)	
Board of Public Works component unit	406,949	-	406,949	(406,949)	
Due from General Operating fund	-	182,269	182,269	(182,269)	-
Due from Remonumentation Fund	-	3,227	3,227	(3,227)	-
Inventories					
Road materials	646,422	-	646,422	-	646,422
Equipment material and parts	256,208	-	256,208	-	256,208
Capital assets					
Assets not being depreciated	-	-	-	21,483,686	21,483,686
Assets being depreciated	-	-	-	21,106,717	21,106,717
<b>Total assets</b>	<b><u>\$ 3,513,288</u></b>	<b><u>\$ 306,503</u></b>	<b><u>\$ 3,819,791</u></b>	<b><u>42,404,907</u></b>	<b><u>\$ 46,224,698</u></b>
<b>Liabilities</b>					
Accounts payable	\$ 783,452	\$ 11,448	\$ 794,900	2,500	\$ 797,400
Due to Housing Rehabilitation Fund	20,672	-	20,672	(20,672)	-
Due to Community Dev. Fund	67,504	3,227	70,731	(70,731)	-
Due to Remonumentation Fund	94,093	-	94,093	(94,093)	-
Due to Board of Public Works component unit		2,500	2,500	(2,500)	-
Accrued liabilities	251,275	-	251,275	42,745	294,020
Escrow deposits	63,992	-	63,992	-	63,992
Deferred revenue	-	80,460	80,460	-	80,460
Short-term equipment advances	272,306	-	272,306	-	272,306
Long-term liabilities					
Due within one year	-	-	-	861,509	861,509
Due after one year	-	-	-	2,315,507	2,315,507
<b>Total liabilities</b>	<b><u>1,553,294</u></b>	<b><u>97,635</u></b>	<b><u>1,650,929</u></b>	<b><u>3,034,265</u></b>	<b><u>4,685,194</u></b>
<b>Fund Balance/Net Assets</b>					
Fund balance					
Reserved					
Inventories	902,630	-	902,630	(902,630)	-
Unreserved					
Undesignated	1,057,364	208,868	1,266,232	(1,266,232)	-
<b>Total fund balance</b>	<b><u>1,959,994</u></b>	<b><u>208,868</u></b>	<b><u>2,168,862</u></b>	<b><u>(2,168,862)</u></b>	<b><u>-</u></b>
<b>Total liabilities and fund balance</b>	<b><u>\$ 3,513,288</u></b>	<b><u>\$ 306,503</u></b>	<b><u>\$ 3,819,791</u></b>		
<b>Net Assets:</b>					
Investment in capital assets, net of related debt				39,413,387	39,413,387
Unrestricted				2,126,117	2,126,117
<b>Total net assets</b>				<b><u>\$ 41,539,504</u></b>	<b><u>\$ 41,539,504</u></b>

The accompanying notes are an integral part of these financial statements.



## Calhoun County Road Commission

### Reconciliation of Governmental Fund Balance Sheet to Statement of Net Assets

December 31, 2004

Fund balances - Governmental Funds	\$ 2,168,862
Amounts reported for <i>governmental activities</i> in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	42,590,403
Long - term liabilities are not due and payable in the current period and are not reported in the funds:	
Bonds payable	(2,275,000)
Installment lease purchase agreements payable	(625,473)
Contracts payable	(276,543)
Certain liabilities, such as compensated absences and claims payable, are not due and payable in the current period and therefore are not reported in the funds:	
Deduct - accrued interest payable	<u>(42,745)</u>
Net assets of governmental activities	<u><u>\$ 41,539,504</u></u>

The accompanying notes are an integral part of these financial statements.

**Calhoun County Road Commission**  
**Statement of Activities and Governmental Fund Revenues,**  
**Expenditures and Changes in Fund Balance**  
**For the Year Ended December 31, 2004**

	Major Fund		Total		Statement of
	General	Nonmajor	Governmental	Adjustments	Activities
	Operating	funds	Funds		
<b>Expenditures/expenses</b>					
Current:					
Public works	\$ 13,234,269	\$ 328,886	\$ 13,563,155	\$ (496,068)	\$ 13,067,087
Debt service:			-		
Principal	581,635	-	581,635	(581,635)	-
Interest	152,732	-	152,732	(9,001)	143,731
<b>Total expenditures/expenses</b>	<u>13,968,636</u>	<u>328,886</u>	<u>14,297,522</u>	<u>(1,086,704)</u>	<u>13,210,818</u>
<b>Program revenue</b>					
Charges for services	2,753,726	315,123	3,068,849	-	3,068,849
Operating grants and contributions	10,160,858	-	10,160,858	-	10,160,858
Capital grants and contributions	623,651	42,130	665,781	-	665,781
<b>Total program revenue</b>	<u>13,538,235</u>	<u>357,253</u>	<u>13,895,488</u>	<u>-</u>	<u>13,895,488</u>
<b>Net program revenue</b>					<u>684,670</u>
<b>General revenue</b>					
Interest revenue	<u>3,162</u>	<u>-</u>	<u>3,162</u>	<u>-</u>	<u>3,162</u>
<b>Net change in fund balances</b>	(427,239)	28,367	(398,872)	398,872	
<b>Change in net assets</b>				687,832	687,832
<b>Fund balance /net assets, beginning of year, as restated</b>	<u>2,387,233</u>	<u>180,501</u>	<u>2,567,734</u>	<u>38,283,938</u>	<u>40,851,672</u>
<b>Fund balance /net assets, end of year</b>	<u>\$ 1,959,994</u>	<u>\$ 208,868</u>	<u>\$ 2,168,862</u>	<u>\$ 39,370,642</u>	<u>\$ 41,539,504</u>

The accompanying notes are an integral part of these financial statements.

## Calhoun County Road Commission

### Reconciliation of the Governmental Fund Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities

For the Year Ended December 31, 2004

Net change in fund balances - Governmental Funds \$ (398,872)

Amounts reported for *governmental activities* in the statement of activities  
are different because:

Governmental funds report capital outlays as expenditures. However, in the  
statement of activities, the cost of those assets is allocated over their estimated  
useful lives and reported as depreciation expense.

Add - capital outlay	971,345
Add - Infrastructure additions	1,273,628
Deduct - depreciation expense	(1,713,206)

Repayment of debt principal is an expenditure in the funds but not in the statement  
of activities:

Bond payments	340,000
Contract and lease purchase installment payments	241,635
Addition to contract payable	(12,800)

Interest expense is recorded in the statement of activities when a liability is incurred;  
they are reported in the funds only when payment is due 9,001

Some expenses reported in the statement of activities do not require the use of current  
financial resources and therefore are not reported as expenditures in the funds.

Equipment retirements	(22,899)
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Change in net assets of governmental activities	<u>\$ 687,832</u>
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The accompanying notes are an integral part of these financial statements.

**Calhoun County Road Commission**  
**General Fund**  
**Statement of Revenue, Expenditures and Changes in Fund Balance -**  
**Budget and Actual**

**Year Ended December 31, 2004**

	<b>Original Budget</b>	<b>Amended Budget</b>	<b>Actual</b>	<b>Actual Over (Under) Amended Budget</b>
<b>Revenue:</b>				
Licenses and permits	100,000	100,000	\$ 131,821	\$ 31,821
Intergovernmental:				
Federal sources	519,924	519,924	623,651	103,727
State sources	8,276,374	8,276,374	9,486,201	1,209,827
Local sources	59,375	59,375	316,200	256,825
Charges for services	1,724,550	1,724,550	2,305,705	581,155
Interest and rent	5,000	5,000	3,162	(1,838)
Other	17,500	17,500	674,657	657,157
<b>Total revenue</b>	<b>10,702,723</b>	<b>10,702,723</b>	<b>13,541,397</b>	<b>2,838,674</b>
<b>Expenditures:</b>				
Current:				
Construction	-	-	167,205	167,205
Primary heavy maintenance	702,905	702,905	1,392,139	689,234
Local heavy maintenance	60,750	60,750	436,938	376,188
Primary maintenance	1,925,610	1,925,610	3,493,629	1,568,019
Local maintenance	2,092,436	2,092,436	3,432,707	1,340,271
Equipment - net	216,100	216,100	367,399	151,299
Administrative	1,135,400	1,135,400	1,299,838	164,438
Other	1,763,150	1,763,150	2,624,120	860,970
Capital outlay - net	(444,697)	(444,697)	20,294	464,991
Debt service	737,598	737,598	734,367	(3,231)
<b>Total expenditures</b>	<b>8,189,252</b>	<b>8,189,252</b>	<b>13,968,636</b>	<b>5,779,384</b>
<b>Net change in fund balance</b>	<b>2,513,471</b>	<b>2,513,471</b>	<b>(427,239)</b>	<b>(2,940,710)</b>
<b>Fund balance, beginning of year</b>	<b>2,387,233</b>	<b>2,387,233</b>	<b>2,387,233</b>	<b>-</b>
<b>FUND BALANCE, end of year</b>	<b>\$ 4,900,704</b>	<b>\$ 4,900,704</b>	<b>\$ 1,959,994</b>	<b>\$ (2,940,710)</b>

The accompanying notes are an integral part of these financial statements.

# CALHOUN COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

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### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Calhoun County Road Commission (the “Road Commission”) conform to generally accepted accounting principles as applied to governmental units. The following is a summary of the significant policies.

#### **Reporting Entity**

The Calhoun County Road Commission, referred to as the Road Commission, is a discrete component unit of the County of Calhoun, Michigan. The Road Commission was established pursuant to the county road law (MCL 224.1), and is governed by a three member Board of County Road Commissioners appointed by the County Board of Commissioners.

The criteria established by the Governmental Accounting Standards Board Statement No. 14, “The Financial Reporting Entity”, for determining the reporting entity includes having significant financial or operational relationships. Based on the above criteria, these financial statements present the Calhoun County Road Commission, a discretely presented component unit of Calhoun County.

The Road Commission General Operating Fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the County, which are earmarked by law for street and highway purposes. The Board of County Road Commissioners has responsibility for the administration of the Road Commission’s General Operating Fund.

The Road Commission also has the responsibility for administering various County projects and grants through the Community Development Department.

#### **Basis of Presentation**

##### **Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the activities of the primary government. *Governmental activities* are supported by charges for services and intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Internally dedicated resources are reported as general revenues rather than as program revenues.

# CALHOUN COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

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As permitted by GASB Statement No. 34, the Road Commission uses an alternative approach reserved for single program governments to present combined government-wide and fund financial statements by using a columnar format that reconciles individual line items of fund financial data to government-wide data in a separate column. Accordingly, this is presented in the Statement of Net Assets and Governmental Funds Balance Sheet and the Statement of Activities and Governmental Fund Revenues, Expenditures and Changed in Fund Balances. The general fund, the sole major governmental fund, is reported as a separate column in the aforementioned financial statements.

### **Measurement Focus Basis of Accounting and Financial Statement Presentation**

The government-wide financial statements (statement of net assets and the statement of activity) are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund (general fund) financial statements (general fund balance sheet and general fund revenues, expenditures and changes in fund balance) are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences not expected to be paid in the current year and claims and judgments, are recorded only when payment is due.

State and grant revenue, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental fund:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government.

Additionally, the government reports the following funds as nonmajor special revenue funds. The *housing rehabilitation fund* accounts for housing grants for projects within the County. The *remonumentation fund* accounts for revenues and expenditures of remonumentation programs within the County, and the *community development fund* accounts for various development projects which benefit the County.

# **CALHOUN COUNTY ROAD COMMISSION**

## **NOTES TO FINANCIAL STATEMENTS**

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### **Budgetary Data**

The governmental funds are under formal budgetary control. The budget shown in the financial statements was adopted on a basis consistent with generally accepted accounting principles (GAAP), which is the modified accrual basis used to reflect actual results, and consists only of those amounts contained in the formal budget as originally adopted or as amended by the Board of County Road Commissioners. The budget for the General Operating Fund and Special Revenue Funds are adopted on a functional basis, and in accordance with the Uniform Budgeting and Accounting Act as prescribed by the State of Michigan. Variances at the functional level of control in the general fund are reflected in the Statement of Revenue, Expenditures and Changes in Fund Balance – Budget and Actual – General Operating Fund:

### **Cash and Cash Equivalents**

Amounts reported as cash and cash equivalents include cash in checking and savings accounts.

### **Inventory**

Inventory consists of various operating parts, supplies, and road material, and the cost is recognized using the consumption method (inventories recorded as expenditures when they are used). Inventories are stated at average cost determined on a first-in, first-out method, except for road materials, which are determined on the average cost method, and are not in excess of fair value.

### **Prepaid Items**

Payments made to vendors for services that will benefit future periods are recorded as prepaid items.

### **Fund Balance Reservations**

Certain assets of the Road Commission are reserved and therefore, not available for future appropriation. These include amounts reserved for inventory and prepaid items

### **Capital Assets**

Capital assets, which include property, equipment and infrastructure assets (roads, bridges and similar items) are reported in the government-wide statements (statement of net assets and statement of changes in net assets). Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date donated. The Road Commission defines capital assets as assets with an initial cost of more than \$5,000 and an estimated useful life in excess of two years.

# CALHOUN COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

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The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets are recorded as capital expenditures at the time of purchase in the fund financial statements and are subsequently capitalized on the government-wide statements through an adjustment to the governmental fund column.

The Uniform Accounting Procedures prescribed for Michigan County Road Commissions provide for recording depreciation in the General Operating Fund as a charge to various expense accounts and a credit to the depreciation contra expense account. Accordingly, the annual depreciation expense does not affect the available operating fund balance of the General Operating Fund.

Depreciation is recorded over the estimated useful lives (ranging from five to fifty years) of the assets, using the sum-of-years digits method for road equipment and straight-line method for all other capital assets and infrastructure as follows:

<b><u>Asset Category</u></b>	<b><u>Useful Life in Years</u></b>
Buildings and improvements	40
Equipment	5 to 8
Infrastructure	8 to 50

### **Deferred Compensation Plan**

The Road Commission offers its employees a deferred compensation plan created in accordance with IRS section 457. The plan, available to all Commission employees, permits them to defer a portion of their current salary until future years. A trust has been established for the plan assets and the related assets and liability are not included in the Road Commission's financial statements.

### **Long-term Obligations**

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. As permitted by GASB Statement No. 34, the Road Commission has elected to apply the provisions related to bond premiums, discounts, and issuance costs on a prospective basis.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.



# CALHOUN COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

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### Compensated Absences

**Accrued Vacation and Sick** - In accordance with contracts negotiated with the various employee groups of the Road Commission, employees have a vested right upon termination to receive compensation for accumulated sick and vacation leave under formulas and conditions specified in the contracts. Employees are compensated at the rate of 100% of their vested vacation and sick leave upon termination for any reason. Beginning in 1999, the accumulated sick leave is paid off to the employees on an annual basis at the end of each calendar year. Accumulated vacation leave is not significant at December 31, 2004.

## 2. CASH DEPOSITS AND INVESTMENTS

### Deposits

At December 31, 2004, the carrying amount of the Road Commission's deposits was \$580,007 which includes \$300 of petty cash and the bank balance was as follows:

	<u>Bank Balance</u>
Insured	\$ 74,073
Held by Calhoun County *	
Checking accounts	61,676
Savings account	<u>515,598</u>
	<u><b>\$ 651,347</b></u>

\* Deposits of the Road Commission held by Calhoun County may be partially covered by federal depository insurance. The amount of federal depository insurance is determined for the County as a whole, but cannot be separately identified for the Road Commission.

### Investments

Statutes authorize the Road Commission to invest funds in the following:

- Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States
- Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution
- Commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and that matures not more than 270 days after the date of purchase
- Bankers acceptances of United States banks
- Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service

# CALHOUN COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

- Mutual funds registered under the investment company act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation
- External investment pools as authorized by Public Act 20 as amended through 12/31/97

### 3. CAPITAL ASSETS

Changes in the components of the capital assets are summarized as follows:

	Balance January 1, 2004	Additions	Deductions	Balance December 31, 2004
<b>Capital assets not being depreciated:</b>				
Land	\$ 484,292	\$ -	\$ -	\$ 484,292
Land improvements - infrastructure	20,276,740	722,654	-	20,276,740
<b>Total capital assets not being depreciated</b>	20,761,032	722,654	-	21,483,686
<b>Capital assets being depreciated:</b>				
Land improvements	75,305	-	-	75,305
Buildings and improvements	1,742,264	39,143	-	1,781,407
Road equipment	8,996,133	96,469	83,835	9,008,767
Shop equipment	228,816	17,841	-	246,657
Office equipment	324,501	87,764	2,756	409,509
Engineers' equipment	82,403	-	6,288	76,115
Yard and storage	815,179	7,474	-	822,653
Depletable assets	240,206	-	4,939	235,267
Infrastructure - roads and signals	29,392,214	1,138,485	-	30,530,699
Infrastructure - bridges	6,344,140	135,143	-	6,479,283
<b>Total capital assets being depreciated</b>	48,241,161	1,522,319	97,818	49,665,662
<b>Accumulated depreciation and depletion</b>				
Buildings and improvements	1,450,401	52,703	-	1,503,104
Equipment	8,863,991	273,610	69,980	9,067,621
Depletable assets	141,493	-	4,939	136,554
Infrastructure - roads and signals	14,607,628	1,179,354	-	15,786,982
Infrastructure - bridges	1,857,145	207,539	-	2,064,684
<b>Total accumulated depreciation and depletion</b>	26,920,658	1,713,206	74,919	28,558,945
<b>Total capital assets being depreciated - net</b>	21,320,503	(190,887)	22,899	21,106,717
<b>Governmental activities capital assets - net</b>	<b>\$ 42,081,535</b>	<b>\$ 531,767</b>	<b>\$ 22,899</b>	<b>\$ 42,590,403</b>

# CALHOUN COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

### 4. LONG-TERM DEBT

Long-term debt of the Road Commission consists of the following:

	<b>Balance January 1, 2004</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance December 31 2004</b>	<b>Due Within One Year</b>
Bonds payable	\$ 2,615,000	\$ -	\$ 340,000	\$ 2,275,000	\$ 355,000
Installment leases payable	856,058	-	230,585	625,473	241,526
Contracts payable	274,793	12,800	11,050	276,543	264,983
<b>Totals</b>	<b>\$ 3,745,851</b>	<b>\$ 12,800</b>	<b>\$ 581,635</b>	<b>\$ 3,177,016</b>	<b>\$ 861,509</b>

### Transportation Bonds

The Road Commission has issued the following Transportation Fund Notes:

Series 1996 bonds are payable in annual installments of \$75,000 with interest at 4.0 to 6.0% per annum. The final payment is due in August, 2006.

Series 1997 bonds are payable in annual installments of \$45,000 with interest at 6.0% per annum. The final payment is due in August, 2006.

Series 1998 bonds are payable in annual installments of \$45,000 to \$50,000 with interest at 4.15% per annum. The final payment is due August 1, 2008.

Series 2002A bonds are payable in annual installments of \$90,000 with interest at 3.35% to 5% per annum. The final payment is due August 1, 2012. The 2002B series bonds are payable in annual installments of \$30,000 to \$50,000 with interest at 3.15% to 6.15% per annum. The final payment is due August 1, 2012.

Series 2004 bonds are payable in annual installments of \$65,000 to \$115,000 with interest at 3.25% to 4.0% per annum. The final payment is due March 1, 2013.

# CALHOUN COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

### Special Assessment

The Road Commission was assessed their portion of sewer construction costs for the Eastern Calhoun County Sewer Project No. 13 (Sheridan Township - Starr Commonwealth) in the amount of \$90,087 during 1992. Project construction and financing is being administered by the Calhoun County Department of Public Works. The Road Commission is responsible for making variable annual principal payments and interest at 3% of outstanding principal through the year 2006. At December 31, 2004, the Road Commission's portion of the sewer liability is \$22,610.

### Land Contracts

#### *Ott Property*

The Road Commission has entered into a contract to purchase a building and land which provides for payments of \$600 per month beginning in January, 1999, with interest at 6% per annum. This is a negative amortization land contract where the accrued interest is added to the land contract principal balance. The balance outstanding at December 31, 2004 is \$253,933.

### Installment Lease

The Road Commission has consolidated and refinanced various equipment leases into one installment lease contract, which is secured by the related equipment, and calls for semi-annual installments of \$134,031 through January 2007, which includes interest at 4.5%.

Annual debt service requirements to maturity for bonds, lease purchase agreements and contracts are as follows:

Year ending December 31,	Bonds		Installment Leases		Contracts		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2005	\$ 355,000	\$ 89,554	\$ 241,526	\$ 26,536	\$ 264,983	\$ 680	\$ 861,509	\$ 116,770
2006	360,000	73,643	252,986	15,075	11,560	350	624,546	89,068
2007	250,000	58,713	130,961	3,070	-	-	380,961	61,783
2008	260,000	49,302	-	-	-	-	260,000	49,302
2009	220,000	39,455	-	-	-	-	220,000	39,455
2010-2013	830,000	68,088	-	-	-	-	830,000	68,088
	<u>\$ 2,275,000</u>	<u>\$ 378,755</u>	<u>\$ 625,473</u>	<u>\$ 44,681</u>	<u>\$ 276,543</u>	<u>\$ 1,030</u>	<u>\$ 3,177,016</u>	<u>\$ 424,466</u>

# CALHOUN COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

In addition, the Road Commission has obtained short-term advances in order to finance capital equipment used for the State Trunkline Maintenance contract. The advance was increased in 2004 by \$20,118, and resulted in a balance of \$272,306 at December 31, 2004.

### 5. INTERFUND RECEIVABLES AND PAYABLES AND TRANSFERS

At December 31, 2004, interfund receivables and payables were as follows:

	<u>Receivable</u>	<u>Payable</u>
General fund	\$ -	\$ 182,269
Nonmajor funds	<u>185,496</u>	<u>3,227</u>
	<u><b>\$ 185,496</b></u>	<u><b>\$ 185,496</b></u>

Also, at December 31, 2004, the General fund has an amount due from the Parks fund, which is another County fund, in the amount of \$76,590.

The Road Commission has interfund balances between many of its funds. The sum of all balances presented in the tables above agrees with the sum of interfund balances presented in the statements of net assets/balance sheet for governmental funds. These interfund balances resulted primarily from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

### 6. DEFINED BENEFIT PENSION PLAN

#### Plan Description

The Road Commission's defined benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The Road Commission participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer plan administered by the Retirement Board of MERS. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 N. Canal Road, Lansing, Michigan 48917, or by calling (800) 767-6377.

# CALHOUN COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

### Funding Policy

The Road Commission is required to contribute at an actuarially determined rate; the current rate is 4% of annual covered payroll. Employees are currently not required to contribute to the Plan. The contribution requirements of the Road Commission are established by Act No. 427 of the Public Acts of 1984, as amended, and may be amended by the Retirement Board of MERS. The contribution requirements of plan members, if any, are established and may be amended by the Road Commission.

### Annual Pension Cost

For the year ended December 31, 2004, the Road Commission's annual pension cost of \$485,364 for MERS was equal to the Road Commission's required and actual contributions. The required contribution was determined as part of the December 31, 2002 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8.0%, (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation, and (c) additional projected salary increases of 0.0% to 4.2% per year, depending on age, attributable to seniority/merit. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return, and includes an adjustment to reflect market value. The Road Commission's unfunded actuarial accrued liability as of December 31, 2002, the date of the latest actuarial valuation, is being amortized as a level percentage of projected payroll on an open basis over 28 years.

### Three-Year Trend Information

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
12/31/02	\$ 499,840	100%	\$ -
12/31/03	476,042	100	-
12/31/04	485,364	100	-

### Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL) - Entry Age</u>	<u>Unfunded Actuarial Liability (UAAL)</u>	<u>UAAL as a Percentage of Funded Ratio</u>	<u>Covered Payroll</u>	<u>Percentage of Covered Payroll</u>
12/31/01	\$ 4,680,720	\$ 8,119,927	\$ 3,439,207	58%	\$ 2,979,616	115%
12/31/02	5,116,348	9,213,557	4,097,209	56	3,125,496	131
12/31/03	5,637,315	9,860,393	4,223,078	57	2,953,201	143

# CALHOUN COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

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### Additional Information

On April 1, 1994, the Road Commission ceased its pension plan with John Hancock Mutual Life Insurance Company (JHMLIC). Sufficient reserves were set aside in annuities for the existing retirees of the Plan on April 4, 1994.

### **7. RISK MANAGEMENT**

The Road Commission is a member of the Michigan County Road Commission Self-Insurance Pool ("Pool") established pursuant to the laws of the State of Michigan which authorizes contracts between municipal corporations (interlocal agreements) to form group self-insurance pools, and to prescribe conditions to the performance of these contracts.

The Michigan County Road Commission Self-Insurance Pool was established for the purpose of making a self-insurance pooling program available for Michigan County Road Commissions, which includes, but is not limited to, general liability coverages, auto liability coverages, property insurance coverages, stop loss insurance protection, claims administration, and risk management and loss control services pursuant to Michigan Public Act 138 of 1982.

The Calhoun County Road Commission pays an annual premium to the Pool for property (buildings and grounds) coverage, automobile liability, errors or omissions liability and bodily injury, property damage and personal injury liability. The agreement for the formation of the Pool provides that the Pool will be self-sustaining through member premiums and will purchase both specific and aggregate stop-loss insurance to the limits determined necessary by the Pool Board.

The Road Commission is also self-insured for workers' compensation as a member of the County Road Association Worker's Compensation Fund

In the past three years, there have been no reductions in coverages, nor have settlements exceeded coverages. Management of the Road Commission believes that losses, if any, in excess of Insurance Pool coverages would not be material to the financial position of the Road Commission.

The Road Commission continues to carry commercial insurance for employee health and accident insurance.

### **8. CONTINGENCIES**

Under the terms of various Federal and State grants, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants. Such grants could lead to reimbursement to the grantor agencies. However, Road Commission management does not believe such disallowances, if any, will be material to the financial position of the Road Commission.

The Road Commission has been named as a defendant in various litigation involving lawsuits pending and notices of intent to file suit.

Management and legal counsel of the Road Commission expect no material losses in excess of insurances should an unfavorable outcome prevail. No provision for any loss has been made in the accompanying financial statements.

# **CALHOUN COUNTY ROAD COMMISSION**

## **NOTES TO FINANCIAL STATEMENTS**

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### **9. RESTATEMENTS**

There was a restatement (increase) in fund balance in the Housing Rehabilitation Fund at January 1, 2004, in the amount of \$89,556 due to the correction of an error in the amount owed to the General Fund as a result of misclassification of expenditures during the period 1998 through 2001. Also, there was a corresponding restatement (decrease) in fund balance in the General Fund at January 1, 2004 for this same misclassification of expenditures.

In addition, there was a restatement (increase) in fund balance in the Remonumentation Fund at January 1, 2004, in the amount of \$137,950 due to the correction of an account receivable.

\* \* \* \* \*



## **OPERATING FUND SCHEDULES**

# Calhoun County Road Commission

## Nonmajor Special Revenue Funds Combining Balance Sheet

December 31, 2004

	Housing Rehabilitation	Community Development	Remonumen- tation	Total
<b>Assets</b>				
Cash and cash equivalents	\$ 60,337	\$ -	\$ -	\$ 60,337
Accounts receivable	-	3,924	56,746	60,670
Due from Remonumentation Fund	-	3,227	-	3,227
Due from General Operating Fund	20,672	67,504	94,093	182,269
<b>Total Assets</b>	<u>\$ 81,009</u>	<u>\$ 74,655</u>	<u>\$ 150,839</u>	<u>\$ 306,503</u>
<b>Liabilities and Fund Equity</b>				
<b>Liabilities</b>				
Accounts payable	\$ 11,448	\$ -	\$ -	\$ 11,448
Deferred revenue	60,498	-	19,962	80,460
Due to Community Development Fund	-		3,227	3,227
Due to BPW Component Unit	-	2,500		2,500
Total liabilities	<u>71,946</u>	<u>2,500</u>	<u>23,189</u>	<u>97,635</u>
<b>Fund Equities</b>				
Unreserved, undesignated	<u>9,063</u>	<u>72,155</u>	<u>127,650</u>	<u>208,868</u>
<b>Total Liabilities and Fund Equity</b>	<u>\$ 81,009</u>	<u>\$ 74,655</u>	<u>\$ 150,839</u>	<u>\$ 306,503</u>

**Calhoun County Road Commission**  
**Nonmajor Special Revenue Funds**  
**Combining Statement of Revenue, Expenditures and Changes**  
**In Fund Balances**  
**Year Ended December 31, 2004**

	<b>Housing Rehabilitation</b>	<b>Community Development</b>	<b>Remonumen- tation</b>	<b>Total</b>
Revenues				
Charges for services	\$ 33,530	\$ 12,016	\$ 154,577	\$ 200,123
Federal grant	42,130	-	-	42,130
Planning revenue	-	115,000	-	115,000
Total revenues	75,660	127,016	154,577	357,253
Expenditures				
Personal service costs	-	29,849	1,845	31,694
Contractual services	87,970	37,703	165,371	291,044
General and administrative	-	4,668	1,480	6,148
Total expenditures	87,970	72,220	168,696	328,886
Net change in fund balances	(12,310)	54,796	(14,119)	28,367
Fund balances, beginning of year, as restated	21,373	17,359	141,769	180,501
Fund balances, end of year	\$ 9,063	\$ 72,155	\$ 127,650	\$ 208,868

# Calhoun County Road Commission

## Detail Schedule of Revenue General Operating Fund

Year Ended December 31, 2004

Revenue	
Licenses and permits	<u>\$ 131,821</u>
Federal sources:	
Federal D funds	
Surface transportation program (STP)	<u>623,651</u>
Total Federal Sources	<u>623,651</u>
State sources:	
Motor Vehicle Highway Funds - Act 51:	
Engineering	10,000
Primary roads	5,621,977
Local roads	2,158,203
Primary urban roads	680,367
Local urban roads	298,628
Exchange funds	717,026
Economic Development Fund	-
Total State Sources	<u>9,486,201</u>
Local sources	
Township contributions	282,974
Other contributions	<u>33,226</u>
Total Local Sources	<u>316,200</u>
Charges for services	
State maintenance contract	2,284,588
Other services	19,380
Salvage sales	<u>1,737</u>
Total Charges For Services	<u>2,305,705</u>
Interest and rent	<u>3,162</u>
Other	<u>674,657</u>
<b>Total Revenue</b>	<u><b>\$ 13,541,397</b></u>

# Calhoun County Road Commission

## Detail Schedule of Expenditures General Operating Fund

Year Ended December 31, 2004

Expenditures:	
Construction	<u>\$ 167,205</u>
Heavy maintenance:	
Primary roads and structures	1,392,139
Local roads and structures	436,938
Total Heavy Maintenance	<u>1,829,077</u>
Maintenance:	
Primary roads and structures, winter and traffic control	3,493,629
Local roads and structures, winter and traffic control	3,432,707
Total Maintenance	<u>6,926,336</u>
Equipment:	
Direct	1,148,327
Indirect	959,741
Operating	234,383
Less: Equipment rental	(1,975,052)
Total Equipment	<u>367,399</u>
Administrative	<u>1,299,838</u>
Other	<u>2,624,120</u>
Capital outlay -net	<u>20,294</u>
<b>Debt Service:</b>	
Principal retirement	581,635
Interest	152,732
Total Debt Service	<u>734,367</u>
<b>TOTAL EXPENDITURES</b>	<u><u><b>\$ 13,968,636</b></u></u>

**Calhoun County Road Commission**  
**Schedule of Revenue, Expenditures and Changes**  
**In Fund Balances**  
**General Operating Fund**

**Year Ended December 31, 2004**

	<b>Primary Road Fund</b>	<b>Local Road Fund</b>	<b>County Road Fund</b>	<b>Total</b>
Revenue				
Licenses and permits	\$ -	\$ -	\$ 131,821	\$ 131,821
Intergovernmental:				
Federal sources	623,651	-	-	623,651
State sources	7,026,570	2,459,631	-	9,486,201
Local sources	-	-	316,200	316,200
Charges for services	2,284,588	-	21,117	2,305,705
Interest and rent	-	-	3,162	3,162
Other	-	-	674,657	674,657
<b>Total Revenue</b>	<b>9,934,809</b>	<b>2,459,631</b>	<b>1,146,957</b>	<b>13,541,397</b>
Expenditures				
Construction	10,043	157,162	-	167,205
Heavy maintenance	1,392,139	436,938	-	1,829,077
Maintenance:				
Road and structures	2,231,145	2,788,892	-	5,020,037
Winter	765,086	534,186	-	1,299,272
Traffic control	497,398	109,629	-	607,027
Equipment - net	195,199	144,572	27,628	367,399
Administrative	713,216	586,622	-	1,299,838
Trunkline maintenance	1,762,448	-	-	1,762,448
Trunkline nonmaintenance	541,416	-	-	541,416
Other	-	-	320,256	320,256
Capital outlay - net	-	-	20,294	20,294
Debt service-principal	-	-	581,635	581,635
Debt service-interest	-	-	152,732	152,732
<b>Total Expenditures</b>	<b>8,108,090</b>	<b>4,758,001</b>	<b>1,102,545</b>	<b>13,968,636</b>
Revenue Over (Under) Expenditures				
Before Other Financing Sources (Uses)	1,826,719	(2,298,370)	44,412	(427,239)
Other Financing Sources (Uses)				
Optional transfers	(1,892,863)	2,298,370	(405,507)	-
<b>Net Change in Fund Balances</b>	<b>(66,144)</b>	<b>-</b>	<b>(361,095)</b>	<b>(427,239)</b>
Fund Balance, Beginning of Year	961,893	-	1,425,340	2,387,233
<b>Fund Balance, End of Year</b>	<b>\$ 895,749</b>	<b>\$ -</b>	<b>\$ 1,064,245</b>	<b>\$ 1,959,994</b>

## **INTERNAL CONTROL AND COMPLIANCE**



**REHMANN ROBSON**

*Certified Public Accountants*

A member of **THE REHMANN GROUP**

 an independent member of  
**BAKER TILLY**  
INTERNATIONAL

**INDEPENDENT AUDITORS' REPORT ON INTERNAL  
CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER  
MATTERS BASED ON AN AUDIT OF BASIC FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

April 1, 2005

Members of the Board of County  
Road Commissioners  
County of Calhoun, Michigan  
Marshall, Michigan

We have audited the financial statements of the governmental activities, the major fund and the aggregate remaining fund information of the Calhoun County Road Commission, a component unit of Calhoun County, as of and for the year ended December 31, 2004, which collectively comprise the Road Commission's basic financial statements, as listed in the table of contents, and have issued our report thereon dated April 1, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Calhoun County Road Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Calhoun County Road Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.



However, we noted other matters involving the internal control over financial reporting that we have reported to management of Calhoun County Road Commission in a separate letter dated April 1, 2005.

This report is intended solely for the information and use of management, the Board of County Road Commissioners, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style.



# REHMANN ROBSON

*Certified Public Accountants*

A member of THE REHMANN GROUP



April 1, 2005

Board of County Road Commissioners  
Calhoun County Road Commission

We have audited the financial statements of the *Calhoun County Road Commission* for the year ended December 31, 2004, and have issued our report thereon dated April 1, 2005. Professional standards require that we provide you with the following information related to your audit.

### **Our Responsibility Under Generally Accepted Auditing Standards**

As stated in our engagement letter dated January 18, 2005, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of Calhoun County Road Commission. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of Calhoun County Road Commission's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

### **Significant Accounting Policies**

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Calhoun County Road Commission are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2004. We noted no transactions entered into by the Calhoun County Road Commission during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

### **Accounting Estimates**

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most significant estimates affecting the financial statements was:

Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future. We evaluated the key factors and assumptions used to develop the useful lives of those assets in determining that it is reasonable in relation to the financial statements taken as a whole.

### **Audit Adjustments**

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on Calhoun County Road Commission's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by Calhoun County Road Commission, either individually or in the aggregate, indicate matters that could have a significant effect on Calhoun County Road Commission's financial reporting process.

In addition, the following summarizes an uncorrected misstatement of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

Accounts payable and expenditures were understated in the amount of \$9,113 in the Road operating fund because of an oversight.

### **Disagreements with Management**

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### **Consultations with Other Independent Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

**Issues Discussed Prior to Retention of Independent Auditors**

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Calhoun County Road Commission's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

**Difficulties Encountered in Performing the Audit**

We encountered no significant difficulties in dealing with management in performing our audit.

This information and the attached memorandum is intended solely for the use of the Board and management of the Calhoun County Road Commission and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style with a large initial 'L'.

# **CALHOUN COUNTY ROAD COMMISSION**

## **ACCOUNTING MEMORANDUM**

**YEAR ENDED DECEMBER 31, 2004**

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### **Ott Land Contract**

This comment is repeated from prior years accounting memorandums and has not yet been resolved. In accordance with the terms of a land contract related to the purchase of a building and land in 1998, interest at the rate of 10% accrues on the outstanding balance of \$175,000. Monthly payments of \$600 are called for, which results in negative amortization. The negative amortization has resulted in an increase in principal of \$12,800 in 2004, making the new balance \$253,933. The land contract provides for early payment "if grant monies can be found". In the year 2013, under the present payment scheme, the principal balance would grow to \$367,000.

We again recommend that the Road Commission continue to determine options for reducing this burden in order to eliminate the negative amortization, or to examine other options by either paying off the obligation , or re- financing the debt on this property until grant monies are secured.

### **Interfund Loans**

This comment is repeated again for the year ended December 31, 2004. At December 31, 2004, the Road Commission fund has advanced other funds a total of \$483,539, which are shown as due from other funds and component units in the financial statements. The largest amounts include \$406,949 loaned to the Board of Public Works and \$76,590 to the Parks fund. These transactions represent an unauthorized use of Road funds if the loans are other than temporary.

The Road Commission should establish a repayment plan for all of these interfund borrowings. The Board of Public Works has ample cash available to repay a sizeable portion of this inter-fund loan.

### **Journal Entries**

As part of our audit procedures, we tested the processes and controls for journal entries (transfer vouchers). It was noted that in several cases, there is no description or reason for the journal entry, nor was documentation supporting the entry attached.

It is recommended that in all cases the preparer of the journal entry or transfer voucher provide an explanation of the entry, and to attach to the entry page the proper support or documentation for the entry.

### **Budgeting**

The operating budget for the Road Commission Fund was not amended in 2004 from the original adopted budget. There were several activities that were over budget as disclosed in the annual financial statements. Also, there were no budgets adopted for the County Remonumentation, Housing Rehabilitation and Community Development special revenue funds.

Budgets should be adopted for all funds of the Road Commission. Also, we recommend that annual budgets be amended to avoid over-expenditures, in order to conform to the requirements of the Michigan Department of Treasury Uniform Budget Manual.

# **CALHOUN COUNTY ROAD COMMISSION**

## **ACCOUNTING MEMORANDUM (Concluded)**

**YEAR ENDED DECEMBER 31, 2004**

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### **Community Development Deficits and Accounting**

Through an agreement with Calhoun County, the Road Commission, the Road Commission has agreed to carry out the functions of a Community Development Department, which includes the providing and coordinating of countywide planning initiatives. In addition, over the past five years, the Road Commission has taken over the operations of County Remonumentation, Housing Rehabilitation, and various other activities under Community Development including the Rusk study, Economic Development, the State Police Post, and Street Addressing. These activities are reported in three separate special revenue funds of the County Road Commission in the years 2000 through 2004.

### **Remonumentation**

At December 31, 2004, the Remonumentation fund had a fund balance of \$128,460. There was only \$3,227 paid reimbursed to the Road Commission fund for administration services.

The Road Commission should determine the actual charges (including salary and fringe benefits) for personnel working on the Remonumentation projects, and reimburse the Road operating fund on a quarterly basis.

### **Allocation of Costs**

Currently, only direct wage and salary cost of Road Commission employees are charged to the Remonumentation, Community Development, and BPW Solid waste funds for their direct time allocated to these activities. However, there is either no costs or insignificant costs charged to the respective funds for related fringe benefit and payroll costs.

In order to provide for proper accountability, and to charge all costs to the proper fund for employee services, we recommend that fringe benefits and payroll tax costs or that the administrative charge be increased to the benefiting funds.

\* \* \* \* \*